

ALVOPETRO ENERGY LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited, thousands of United States dollars)

| | Note | June 30, 2015 | December 31, 2014 |
|---|------|------------------|----------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | | 31,279 | 40,920 |
| Restricted cash | 3 | 4,583 | 3,373 |
| Trade and other receivables | | 145 | 154 |
| Prepaid expenditures | | 387 | 428 |
| Total current assets | | 36,394 | 44,875 |
| Restricted cash | 3 | 5,039 | 9,749 |
| Other assets | 4 | 13 | 240 |
| Exploration and evaluation assets | 5 | 64,015 | 62,204 |
| Property, plant and equipment | 6 | 7,361 | 7,489 |
| Non-current assets | | 76,428 | 79,682 |
| Total assets | | 112,822 | 124,557 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 5,657 | 9,031 |
| | | 5,657 | 9,031 |
| Deferred tax liability | | 4,311 | 4,247 |
| Decommissioning liabilities | 7 | 3,104 | 3,454 |
| | | 13,072 | 16,732 |
| Shareholders' equity | | | |
| Share capital | 8 | 151,937 | 151,937 |
| Contributed surplus | | 1,206 | 975 |
| Deficit | | (37,931) | (35,388) |
| Accumulated other comprehensive loss | | (15,462) | (9,699) |
| Total shareholders' equity | | 99,750 | 107,825 |
| Total liabilities and shareholders' equity | | 112,822 | 124,557 |

Commitments and contingencies (Note 13)

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited, thousands of United States dollars, except per share amounts)

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|--|------|-----------------------------|----------------|---------------------------|----------------|
| | | 2015 | 2014 | 2015 | 2014 |
| Revenue | | | | | |
| Oil sales | | 150 | 323 | 322 | 637 |
| Royalties and production taxes | | (6) | (33) | (21) | (67) |
| Oil revenue | | 144 | 290 | 301 | 570 |
| Other income | | 23 | 114 | 54 | 266 |
| Total revenue and other income | | 167 | 404 | 355 | 836 |
| Expenses | | | | | |
| Production | | 264 | 363 | 512 | 687 |
| Transportation | | 5 | 15 | 21 | 26 |
| General and administrative | | 1,231 | 1,653 | 2,512 | 2,757 |
| Depletion and depreciation | 6 | 101 | 89 | 217 | 180 |
| Accretion of decommissioning liabilities | 7 | 19 | 29 | 38 | 52 |
| Share-based compensation | 8 | 90 | 154 | 179 | 316 |
| Exploration and evaluation expenditures | | 51 | - | 51 | - |
| Foreign exchange (gain) loss | | (291) | (119) | (43) | 2,415 |
| Total expenses | | 1,470 | 2,184 | 3,487 | 6,433 |
| Loss before taxes | | (1,303) | (1,780) | (3,132) | (5,597) |
| Income tax (recovery) expense | | (323) | (476) | (589) | (272) |
| Net loss | | (980) | (1,304) | (2,543) | (5,325) |
| Exchange gain (loss) on translation of foreign operations | | 944 | 774 | (5,763) | 1,770 |
| Comprehensive loss | | (36) | (530) | (8,306) | (3,555) |
| Net loss per share | | | | | |
| | 8 | | | | |
| Basic | | (0.01) | (0.02) | (0.03) | (0.06) |
| Diluted | | (0.01) | (0.02) | (0.03) | (0.06) |

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited, thousands of United States dollars)

| | | Six months ended June 30, | |
|--|-------------|----------------------------------|-------------|
| | Note | 2015 | 2014 |
| Common Shares | | | |
| Balance, beginning of period | | 151,937 | 151,937 |
| Net change | | - | - |
| Balance, end of period | | 151,937 | 151,937 |
| Contributed surplus | | | |
| Balance, beginning of period | | 975 | 74 |
| Share-based compensation expense | 8 | 179 | 316 |
| Share-based compensation capitalized | 8 | 52 | 132 |
| Balance, end of period | | 1,206 | 522 |
| Deficit | | | |
| Balance, beginning of period | | (35,388) | (3,679) |
| Net loss | | (2,543) | (5,325) |
| Balance, end of period | | (37,931) | (9,004) |
| Accumulated Other Comprehensive (Loss) Gain | | | |
| Balance, beginning of period | | (9,699) | (1,750) |
| Other comprehensive (loss) gain | | (5,763) | 1,770 |
| Balance, end of period | | (15,462) | 20 |

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, thousands of United States dollars)

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|---|------|-----------------------------|----------------|---------------------------|-----------------|
| | | 2015 | 2014 | 2015 | 2014 |
| Operating Activities | | | | | |
| Net loss | | (980) | (1,304) | (2,543) | (5,325) |
| Adjustments for non-cash items: | | | | | |
| Depletion and depreciation | 6 | 101 | 89 | 217 | 180 |
| Accretion of decommissioning liability | 7 | 19 | 29 | 38 | 52 |
| Non-cash E&E expenditures | | 32 | - | 32 | - |
| Share-based compensation | 8 | 90 | 154 | 179 | 316 |
| Deferred tax | | (323) | (488) | (589) | (297) |
| Unrealized foreign exchange (gain) loss | | (291) | (373) | (43) | 165 |
| | | (1,352) | (1,893) | (2,709) | (4,909) |
| Changes in non-cash working capital | 11 | 610 | (379) | 85 | (195) |
| | | (742) | (2,272) | (2,624) | (5,104) |
| Investing Activities | | | | | |
| Expenditures on exploration and evaluation assets | 5 | (6,135) | (5,165) | (7,162) | (12,245) |
| Expenditures on property, plant and equipment | 6 | (467) | (51) | (729) | (342) |
| Expenditures on other assets | 4 | - | (877) | (65) | (877) |
| Change in restricted cash | 3 | 3,480 | 620 | 3,480 | (26,689) |
| Changes in non-cash working capital | 11 | (1,676) | (2,176) | (2,280) | 58 |
| | | (4,798) | (7,649) | (6,756) | (40,095) |
| Change in cash and cash equivalents | | (5,540) | (9,921) | (9,380) | (45,199) |
| Effect of foreign exchange on cash balances | | 161 | 183 | (261) | (402) |
| Cash and cash equivalents, beginning of period | | 36,658 | 64,405 | 40,920 | 100,268 |
| Cash and cash equivalents, end of period | | 31,279 | 54,667 | 31,279 | 54,667 |
| Cash and cash equivalents consist of: | | | | | |
| Cash | | 16,000 | 54,667 | 16,000 | 54,667 |
| Cash equivalents | | 15,279 | - | 15,279 | - |
| Supplemental information: | | | | | |
| Cash income taxes paid | | 11 | 14 | 16 | 27 |
| Cash interest income received | | 29 | 64 | 40 | 259 |

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2015

All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted

NOTE 1 – CORPORATE INFORMATION AND BASIS OF PRESENTATION

Alvopetro Energy Ltd. (“Alvopetro” or “the Company”) is engaged in the exploration, development and production of hydrocarbons in Brazil. Alvopetro is a publicly traded company listed on the TSX Venture Exchange (TSX: ALV.V), was incorporated under the Business Corporations Act (Alberta) on September 25, 2013 as 1774501 Alberta Ltd., and subsequently changed its name to Alvopetro Energy Ltd. on November 19, 2013. The Company’s head office and records are located at 1175, 332 6th Avenue S.W., Calgary, Alberta, Canada, T2P 0B2.

The interim condensed consolidated financial statements as at June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and June 30, 2014 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the presentation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2014. These statements do not contain all disclosures required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2014.

These interim condensed consolidated financial statements were authorized for issuance by the Company’s Board of Directors on August 19, 2015.

Segmented Operations

All oil sales revenue is derived entirely from Brazilian operations. All material exploration and evaluation assets and property, plant and equipment are located in Brazil. All restricted cash and the majority of the cash and cash equivalents are located in Canada. The Company does not have any significant income in Canada other than interest earned on cash balances.

NOTE 2 – CHANGES IN ACCOUNTING STANDARDS

The interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the 2014 annual consolidated financial statements. The Company continues to assess the impact of adopting the new standard as described in the 2014 annual consolidated financial statements as well as any new pronouncements from the International Accounting Standards Board.

NOTE 3 – RESTRICTED CASH AND CREDIT FACILITY

| | As at | |
|-------------------------------|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| Restricted cash – current | 4,583 | 3,373 |
| Restricted cash – non-current | 5,039 | 9,749 |
| Balance, end of period | 9,622 | 13,122 |

The Company has a credit support facility (the “Facility”) with a Canadian bank for up to \$45.0 million Canadian dollars (“CAD”). The Facility allows for the issuance of letters of credit (“LC’s”) and letters of guarantee in support of the financial guarantees required by the National Agency of Petroleum, Natural Gas and Biofuels (the “ANP”) for Alvopetro’s work commitments under the terms of its concession contracts as discussed further in Note 13. Letters of credit and letters of guarantee issued under the Facility are supported by either cash collateral posted by Alvopetro or through an Account Performance Security Guarantee the Company obtained from Export Development Canada (“EDC”) in December 2014. EDC supports up to \$15.5 million of LC’s issued under the Facility.

As at June 30, 2015, the total amount of LC’s issued under the Facility was \$24.7 million (December 31, 2014 - \$27.9 million), with \$15.4 million (December 31, 2014 - \$15.1 million) satisfied through EDC and \$9.3 million (December 31, 2014 - \$12.8 million) satisfied through restricted cash deposits of Alvopetro. Of the \$9.3 million restricted cash amount, \$4.3 million (December 31,

ALVOPETRO ENERGY LTD.
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2014 - \$3.1 million) was classified as current as it relates to LC's expiring within one year and \$5.0 million (December 31, 2014 - \$9.7 million) was classified as non-current. The reduction in the restricted cash balance from December 31, 2014 is as a result of reduced collateral requirements due to the declining Brazil real ("BRL") relative to the U.S. dollar in the first six months of 2015.

During the three months ended June 30, 2015, Alvopectro paid \$4.0 million in performance guarantees on four exploration blocks relinquished to the ANP. A total of \$6.2 million of LC's had been issued in support of these guarantees by EDC and remained outstanding at June 30, 2015 pending formal release by the ANP. Subsequent to June 30, 2015, these LC's were released by the ANP and \$5.0 million in LC's supported by Alvopectro's restricted cash balance at June 30, 2015 were transitioned to EDC. A payment of \$0.2 million was made to EDC for this additional LC coverage. An additional \$0.8 million of restricted cash was also released as a result of reduced cash collateral requirements on two LC's. Overall, these changes resulted in a release of \$5.8 million of restricted cash to cash and cash equivalents subsequent to June 30, 2015.

During the three and six months ended June 30, 2015, the Company earned floating-rate interest income on the restricted cash deposits under the Facility of approximately 0.12 percent per annum.

At June 30, 2015 and December 31, 2014 there was an additional \$0.3 million of cash collateral posted with respect to corporate credit cards, classified as current.

NOTE 4 – OTHER ASSETS

| | As at | |
|---|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| Balance, beginning of period | 240 | - |
| Deposits with suppliers for long lead items | 65 | 1,429 |
| Transfer to E&E and PP&E assets (Notes 5 & 6) | (273) | (1,090) |
| Foreign currency translation | (19) | (99) |
| Balance, end of period | 13 | 240 |

The balance outstanding at June 30, 2015 and December 31, 2014 relates to deposits with suppliers for long-lead items required for the Company's future exploration and development activities.

NOTE 5 – EXPLORATION AND EVALUATION (E&E) ASSETS

| | As at | |
|--|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| Balance, beginning of period | 62,204 | 45,002 |
| Capital expenditures | 7,162 | 42,160 |
| Capitalized share-based compensation | 47 | 215 |
| Transferred from other assets (Note 4) | 272 | 1,090 |
| Change in decommissioning liabilities | 112 | 491 |
| Transfer to PP&E | - | (13) |
| E&E expenditures | (32) | (20,330) |
| Foreign currency translation | (5,750) | (6,411) |
| Balance, end of period | 64,015 | 62,204 |

General and administrative costs totaling \$0.6 million that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

ALVOPETRO ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2015

All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT (PP&E)

| | As at | |
|---|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| Cost, beginning of period | 10,717 | 10,529 |
| Capital expenditures | 729 | 777 |
| Transferred from E&E | - | 13 |
| Transferred from other assets (Note 4) | 1 | - |
| Capitalized share-based compensation | 5 | 49 |
| Change in decommissioning liabilities | - | 459 |
| Foreign currency translation | (977) | (1,110) |
| Cost, end of period | 10,475 | 10,717 |
| Accumulated depletion and depreciation, beginning of period | (3,228) | (832) |
| Depletion and depreciation for the period | (217) | (441) |
| Impairment | - | (2,261) |
| Foreign currency translation | 331 | 306 |
| Accumulated depletion and depreciation, end of period | (3,114) | (3,228) |
| Net book value, end of period | 7,361 | 7,489 |

General and administrative costs totaling \$0.1 million that were directly related to investing activities have been capitalized as property, plant and equipment.

NOTE 7 – DECOMMISSIONING LIABILITIES

The decommissioning liabilities were estimated based on the net ownership interest of wells and facilities and management's estimates of costs to abandon and reclaim those wells and facilities, and the potential future timing of the costs to be incurred.

| | As at | |
|------------------------------|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| Balance, beginning of period | 3,454 | 2,833 |
| Liabilities incurred | 112 | 450 |
| Revisions to obligations | - | 500 |
| Accretion | 38 | 94 |
| Foreign currency translation | (500) | (423) |
| Balance, end of period | 3,104 | 3,454 |

Total undiscounted cash flows, escalated at 6.5% (December 31, 2014- 6.5%) for inflation, required to settle the Company's decommissioning provision are estimated to be \$4.8 million (December 31, 2014 - \$5.3 million) and have been discounted using an average risk free rate of 2.5% (December 31, 2014 – 3.0%), which represents an estimated U.S. Treasury bill rate for a period of 20 years (December 31, 2014 – 20 years), the weighted-average remaining years to abandonment.

ALVOPETRO ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2015

All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted

NOTE 8 – SHARE CAPITAL

a) Authorized

Alvopetro has an unlimited number of common shares authorized for issuance. The Company is also authorized to issue preferred shares in one or more series.

b) Issued and Outstanding Common Shares

| | Number of Shares | Amount (\$000s) |
|---|---------------------|--------------------|
| Balance as at June 30, 2015 and December 31, 2014 | 85,166,871 | \$ 151,937 |

c) Options to Purchase Common Shares

Alvopetro has a stock option plan whereby the Company may grant stock options to its directors, officers, employees and consultants. The plan allows for the issuance of up to ten percent of the outstanding common shares of the Company. The exercise price of each option is not less than the volume weighted five-day average price of the Company's common shares on the TSX Venture Exchange prior to the date of grant. Stock option terms are determined by the Company's Board of Directors but typically, options granted vest over a period of three years from the date of grant and expire five years from the date of grant. The options outstanding at June 30, 2015 are as follows:

| | Number of Options | Weighted Average Exercise Price (CAD \$) |
|-------------------------------------|----------------------|--|
| Balance as at December 31, 2014 | 4,567,436 | 0.82 |
| Granted | 836,000 | 0.45 |
| Forfeited | (27,500) | 0.85 |
| Outstanding at June 30, 2015 | 5,375,936 | 0.77 |

| Options Outstanding at June 30, 2015 | | | | Options Exercisable at June 30, 2015 | | |
|--------------------------------------|----------------------|--|---|--------------------------------------|--|---|
| Exercise Price | Number of Options | Weighted Average Exercise Price (CAD\$) | Weighted Average Remaining Contractual Life (years) | Number of Options | Weighted Average Exercise Price (CAD\$) | Weighted Average Remaining Contractual Life (years) |
| CAD\$0.40 - \$0.50 | 2,258,500 | 0.42 | 4.56 | - | - | - |
| CAD\$0.51 - \$1.00 | 40,000 | 0.57 | 4.32 | - | - | - |
| CAD\$1.01 - \$1.24 | 3,077,436 | 1.02 | 3.48 | 1,523,719 | 1.02 | 3.48 |
| CAD\$0.40 - \$1.24 | 5,375,936 | 0.77 | 3.94 | 1,523,719 | 1.02 | 3.48 |

ALVOPETRO ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2015

All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted

d) Share-Based Compensation

The fair value of the stock options granted under the Alvo Petro stock option plan for the three and six months ended June 30, 2015 has been estimated on the grant date using the Black-Scholes option pricing model. Weighted average assumptions and resultant fair values for stock options granted are as follows:

| | Three months ended | | Six months ended | |
|-------------------------------------|--------------------|-------|------------------|-------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Risk free interest rate (%) | 0.76 | 1.31 | 0.48 | 1.31 |
| Expected term (years) | 4.00 | 4.00 | 2.20 | 4.00 |
| Expected volatility (%) | 50.00 | 50.00 | 50.00 | 50.00 |
| Dividend per share (%) | - | - | - | - |
| Forfeiture rate (%) | 5.00 | 5.00 | 5.00 | 5.00 |
| Weighted average fair value (CAD\$) | 0.19 | 0.51 | 0.13 | 0.51 |

Total share-based compensation of \$0.1 million and \$0.2 million, respectively was computed for the three and six months ended June 30, 2015 (June 30, 2014 - \$0.2 million and \$0.4 million) related to the Alvo Petro stock option plan. Of this amount, approximately \$0.03 million and \$0.05 million, respectively (June 30, 2014 - \$0.07 million and \$0.13 million) was capitalized to exploration and evaluation assets and property, plant and equipment, with the remainder recognized as share-based compensation expense on the consolidated statements of operations and comprehensive loss.

e) Net Loss Per Share Attributable to Common Shareholders

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the applicable period. The following table provides the number of shares used in the basic and diluted per share computations:

| | Three and six months ended | |
|---|----------------------------|------------|
| | June 30, | |
| | 2015 | 2014 |
| Weighted average common shares outstanding, basic and diluted | 85,166,871 | 85,166,871 |

In determination of the weighted average number of diluted common shares outstanding for the three and six months ended June 30, 2015 and 2014, all stock options were excluded because the effect would be anti-dilutive.

NOTE 9 – CAPITAL MANAGEMENT

The Company's capital consists of the following:

| | As at | |
|--|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| Working capital, including current restricted cash | 30,737 | 35,844 |
| Non-current restricted cash | 5,039 | 9,749 |
| Shareholders' equity | 99,750 | 107,825 |

Alvo Petro manages its capital to support the Company's strategic growth objectives and maintain financial capacity and flexibility for the purpose of funding the Company's exploration and development activities.

ALVOPETRO ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2015

All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted

The Company considers its capital structure to include working capital (including current restricted cash), non-current restricted cash, and shareholders' equity. At June 30, 2015, the Company's net working capital surplus of \$30.7 million (December 31, 2014 - \$35.8 million), included \$31.3 million (December 31, 2014 - \$40.9 million) of cash and \$4.6 million (December 31, 2014 - \$3.4 million) of current restricted cash, but excludes non-current restricted cash of \$5.0 million (December 31, 2014 - \$9.7 million).

The Company's current portion of restricted cash of \$4.6 million includes \$4.3 million of cash collateral pledged for letters of credit expiring within the next twelve months associated with work commitments in Brazil. The cash posted as collateral may be available earlier pending completion of the related work commitments. Additional current restricted cash relates to cash pledged for corporate credit cards (\$0.3 million).

Alvopetro has \$5.0 million of non-current restricted cash related to collateral posted for work commitments in Brazil for letters of credit with expiry dates subsequent to June 30, 2016. Funds may be made available to Alvopetro earlier pending completion of the related work commitments.

Alvopetro has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program, other than with respect to work commitments. The Company considers its capital structure at this time to include shareholders' equity of \$99.8 million (December 31, 2014 - \$107.8 million). In the event that adjustments to the capital structure are necessary, the Company may consider monetizing assets, issuing additional equity, farming out prospects, raising debt or revising its capital investment programs.

The Company has not paid or declared any dividends since the date of incorporation.

NOTE 10 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables and accounts payable and accrued liabilities. The nature of Alvopetro's operations exposes the Company to credit risk, liquidity risk, and market risk. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management.

Fair Value of Financial Instruments

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment that may affect the placement within the fair value hierarchy level. Due to the short-term nature of accounts receivable and accounts payable and accrued liabilities, their carrying value approximates their fair value. The carrying values and respective fair values of Alvopetro's financial instruments at June 30, 2015 is set forth in the table below. The Company does not currently have any fair value measurements classified as Level 2 or Level 3.

ALVOPETRO ENERGY LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2015

All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted

| | June 30, 2015 | | December 31, 2014 | |
|---|----------------|----------------|-------------------|----------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Carried at fair value through profit or loss | | | | |
| Cash and cash equivalents ⁽¹⁾ | 31,279 | 31,279 | 40,920 | 40,920 |
| Restricted cash – current and non-current ⁽¹⁾⁽²⁾ | 9,622 | 9,622 | 13,122 | 13,122 |
| | 40,901 | 40,901 | 54,042 | 54,042 |
| Carried at cost or amortized cost | | | | |
| Trade and other receivables | 145 | 145 | 154 | 154 |
| Accounts payable and accrued liabilities | (5,657) | (5,657) | (9,031) | (9,031) |
| | (5,512) | (5,512) | (8,877) | (8,877) |

(1) Level 1

(2) Restricted cash balances include amounts pledged as collateral for work commitments (Note 3).

Risks Associated with Financial Assets and Liabilities

The nature of Alvopetro's operations exposes the Company to credit risk, foreign currency risk, commodity price risk, interest rate risk, and liquidity risk. The Company has several practices and policies in place to help mitigate these risks. A description of the nature and extent of risks arising from the Company's financial instruments can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2014 and there has been no significant change to the Company's exposure to these risks. The following financial instruments were denominated in currencies other than U.S. dollars as at June 30, 2015:

| | As at | | | |
|--|---------------|----------------|-------------------|-----------------|
| | June 30, 2015 | | December 31, 2014 | |
| | CAD (000's) | BRL (000's) | CAD (000's) | BRL (000's) |
| Cash and cash equivalents | 479 | 7,656 | 1,540 | 708 |
| Restricted cash – current | 355 | - | 354 | - |
| Trade and other receivables | 8 | 429 | 5 | 366 |
| Accounts payable and accrued liabilities | (221) | (15,400) | (104) | (22,875) |
| Net exposure in foreign currency | 621 | (7,315) | 1,795 | (21,801) |
| Net exposure in USD (\$000s) | 497 | (2,358) | 1,547 | (8,209) |

The Company had no forward exchange rate contracts in place as at or during the periods ended June 30, 2015 or December 31, 2014.

ALVOPETRO ENERGY LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2015

*All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 11 – CHANGES IN NON-CASH WORKING CAPITAL**

| Change in: | Three months ended | | Six months ended | |
|--|--------------------|----------------|------------------|--------------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Trade and other receivables | 3 | 92 | (10) | (120) |
| Prepaid expenditures | (3) | (180) | (6) | (187) |
| Accounts payable and accrued liabilities | (1,066) | (2,467) | (2,179) | 170 |
| | (1,066) | (2,555) | (2,195) | (137) |
| Changes relating to: | | | | |
| Operating activities | 610 | (379) | 85 | (195) |
| Investing activities | (1,676) | (2,176) | (2,280) | 58 |
| | (1,066) | (2,555) | (2,195) | (137) |

NOTE 12 – RELATED PARTY TRANSACTIONS

Alvopetro is party to non-material office-related administrative transactions with Touchstone Exploration Inc. (“Touchstone”), a related party of the Company due to common directors. These transactions include administrative consulting fees and office sub-lease expenses charged to Alvopetro, summarized as follows:

| | Three months ended | | Six months ended | |
|--------------------------------|--------------------|------|------------------|------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Office rent and related costs | 51 | 57 | 101 | 113 |
| Administrative consulting fees | - | 1 | - | 7 |

As at June 30, 2015, the Company owed Touchstone \$0.02 million (December 31, 2014 - \$nil).

ALVOPETRO ENERGY LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2015

*All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 13 – COMMITMENTS AND CONTINGENCIES**

The following is a summary of contractual commitments as at June 30, 2015:

| Commitments | < 1 Year | 1-3 Years | Thereafter | Total |
|---|--------------------|------------------|-------------------|---------------|
| Minimum work commitments ⁽¹⁾ | | | | |
| Block 182 ⁽²⁾ | 981 | - | - | 981 |
| Block 183 ⁽³⁾ | - | 1,075 | - | 1,075 |
| Block 170 | 967 | - | - | 967 |
| Block 197 ⁽⁴⁾ | - | 1,650 | - | 1,650 |
| Block 106 | - | 368 | - | 368 |
| Block 107 | - | 2,450 | - | 2,450 |
| Block 177 | - | 2,318 | - | 2,318 |
| Block 169 | - | 1,225 | - | 1,225 |
| Block 198 | - | 1,225 | - | 1,225 |
| Block 255 | - | 1,466 | - | 1,466 |
| Block 256 | - | 326 | - | 326 |
| Bom Lugar | - | - | 113 | 113 |
| Jiribatuba | - | - | 113 | 113 |
| Aracaju | - | - | 81 | 81 |
| Total minimum work commitments | 1,948 | 12,103 | 307 | 14,358 |
| Office leases ⁽⁵⁾ | 173 | - | - | 173 |
| Total commitments | 2,121 | 12,103 | 307 | 14,531 |

Notes:

- (1) Under the terms of the ANP concession contracts for each of our exploration blocks, the Company has work commitments which must be completed prior to the applicable phase expiry date. The performance guarantee associated with Block 196 has been included in accounts payable and accrued liabilities as at June 30, 2015 and is therefore excluded from the table above.
- (2) During the three months ended June 30, 2015 the Company completed drilling the first well on Block 182, which, subject to ANP approval, fulfils the well commitment included in the table above. A Discovery Evaluation Plan ("PAD") was submitted to the ANP on July 7, 2015. The PAD, once approved will include additional commitments.
- (3) On June 12, 2015, Block 183 transitioned to the second exploration phase (which extends to June 11, 2017) with an additional work commitment of \$1.1 million applicable for this phase (included in the table above). In 2014 the Company completed drilling the well associated with the minimum work commitment first exploration phase, which, subject to ANP approval, fulfilled the well commitment of \$1.0 million for this phase (not included in the table above).
- (4) The PAD for Block 197 (which is valid until January 31, 2018) was approved in May, 2015. The PAD includes firm commitments to test the 197(2) well and perform additional analysis of our 197(1) well. All firm commitments must be completed by January 31, 2017. The Company completed testing the 197(2) well during the three months ended June 30, 2015.
- (5) The Company is committed to future minimum payments for office space in Canada and Brazil. In Brazil, the Company is required to provide a guarantee for certain office rental payments. The total amount of the guarantee provided as at June, 2015 was approximately \$0.1 million.

Alvopetro's activities in Brazil are subject to minimum local content requirements with respect to materials and supplies utilized. The specific local content requirements for the exploration phase were determined during the bidding process for each particular block and are assessed at the phase expiry date. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous or reasonably possible for the Company to do so. If the Company does not meet the local content requirements for a particular phase as specified according to the respective concession contract, a fine, which varies by concession depending on exploration phase and type of cost, will be incurred. The Company is continually monitoring its local content compliance and actual or potential fines and, as of June 30, 2015, the potential estimated fine of \$0.1 million (December 31, 2014 - \$0.1 million), is included in accounts payable and accrued liabilities in the consolidated statement of financial position.